

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



**ADAM H. EDELEN
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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable George "Buzz" Carloftis, Rockcastle County Judge/Executive

Members of the Rockcastle County Fiscal Court

The enclosed report prepared by Baldwin CPAs, PLLC, presents the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Rockcastle County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements.

We engaged Baldwin CPAs, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Baldwin CPAs, PLLC evaluated Rockcastle County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ROCKCASTLE COUNTY FISCAL COURT

June 30, 2011

Baldwin CPAs, PLLC has completed the audit of the Rockcastle County Fiscal Court as of and for the fiscal year ended June 30, 2011, and have issued unqualified opinions on the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and aggregate remaining fund information. An unqualified opinion has also been issued on compliance with requirements applicable to each of the County's major federal programs.

Financial Conditions:

The fiscal court had total net assets of \$6,222,596 as of June 30, 2011. In its governmental activities the fiscal court had unrestricted net assets of \$731,997 as of June 30, 2011, with total net assets of \$6,149,421. Total net cash and cash equivalents in the business-type activity were \$31,149, with total net assets of \$73,175. The discretely presented component unit had total net assets of \$4,231,817, which included cash and cash equivalents of \$419,609 as of June 30, 2011. The fiscal court had total debt principal as of June 30, 2011 of \$5,183,664 with \$567,515 due within the next year. The discretely presented component unit had total debt principal of \$2,186,810 as of June 30, 2011, with \$192,857 due within the next year.

Report Comments:

- | | |
|---------|--|
| 2011-01 | The Payroll Revolving Account Should Be Reviewed To Identify All Activity Passing Through The Account |
| 2011-02 | The Jail Inmate Account Should Be Reconciled Monthly To Ensure The Detailed Records Agree With The Bank Transactions |
| 2011-03 | The Jailer's Annual Report Should Be Presented In A Manner That Presents Total Receipts And Disbursements And Reconciles Cash |
| 2011-04 | Debt Activity Should Be Reconciled Quarterly |
| 2011-05 | All Invoices Should Be Paid Within 30 Days As Required By KRS 65.140 |
| 2011-06 | The Debt Service Fund Should Be Budgeted And Included In The 4 th Quarter Treasurer's Report As Required By KRS 68.360 |
| 2011-07 | The Fiscal Court Should Place One-Half Of The Forestry Funds To The Credit Of The Public Roads And The Other Half Shall Be Distributed To Each School District As Required By KRS 149.130(3) |
| 2011-08 | The Fiscal Court Should Maintain Grant Files In A Manner That Allows For A Complete And Accurate Accounting Of All Expenditures And Revenues |

Deposits:

The County's deposits were insured and collateralized by bank securities.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable George "Buzz" Carloftis, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Rockcastle County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Rockcastle County Fiscal Court's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Rockcastle County, Kentucky, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Rockcastle County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 1. H. to the financial statements, the County adopted the provisions of GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

In accordance with Government Auditing Standards, we have also issued our report January 17, 2012, on our consideration of Rockcastle County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
 Honorable Steven L. Beshear, Governor
 Lori H. Flanery, Secretary
 Finance and Administration Cabinet
 Honorable George "Buzz" Carloftis, Rockcastle County Judge/Executive
 Members of the Rockcastle County Fiscal Court

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rockcastle County, Kentucky's financial statements as a whole. The combining fund financial statements and component unit fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining fund financial statements, the component unit fund financial statements, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- 2011-01 The Payroll Revolving Account Should Be Reviewed To Identify All Activity Passing Through The Account
- 2011-02 The Jail Inmate Account Should Be Reconciled Monthly To Ensure The Detailed Records Agree With The Bank Transactions
- 2011-03 The Jailer's Annual Report Should Be Presented In A Manner That Presents Total Receipts And Disbursements And Reconciles Cash
- 2011-04 Debt Activity Should Be Reconciled Quarterly
- 2011-05 All Invoices Should Be Paid Within 30 Days As Required By KRS 65.140
- 2011-06 The Debt Service Fund Should Be Budgeted And Included In The 4th Quarter Treasurer's Report As Required By KRS 68.360
- 2011-07 The Fiscal Court Should Place One-Half Of The Forestry Funds To The Credit Of The Public Roads And The Other Half Shall Be Distributed To Each School District As Required By KRS 149.130(3)
- 2011-08 The Fiscal Court Should Maintain Grant Files In A Manner That Allows For A Complete And Accurate Accounting Of All Expenditures And Revenues

Respectfully submitted,

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC
 January 17, 2012

ROCKCASTLE COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

George "Buzz" Carloftis	County Judge/Executive
Lee Earl Adams	Magistrate
William Denny	Magistrate
Bill McKinney	Magistrate
Gary Burdette	Magistrate
Ralph Allen	Magistrate

Other Elected Officials:

William D. Reynolds	County Attorney
James E. Miller	Jailer
Danetta Ford Allen	County Clerk
Teresa Vanzant	Circuit Court Clerk
Mike Peters	Sheriff
Margaret Offutt	Property Valuation Administrator
Billy Dowell	Coroner

Appointed Personnel:

Joseph B. Clontz	County Treasurer
Patricia Martin	Fiscal Court Clerk

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ROCKCASTLE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

ROCKCASTLE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	Primary Government			Component Unit
	Governmental	Business-Type		Rockcastle County
	Activities	Activities	Totals	Industrial Development
				Authority
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 942,430	\$ 31,149	\$ 973,579	\$ 419,609
Notes Receivable Due				
Within One Year	61,051		61,051	
Total Current Assets	1,003,481	31,149	1,034,630	419,609
Noncurrent Assets:				
Notes Receivable Due In				
More Than One Year	63,090		63,090	
Capital Assets - Net of Accumulated				
Depreciation				
Land	434,500		434,500	1,389,809
Land Improvements	165,124		165,124	1,915,209
Buildings and Improvements	3,816,151		3,816,151	2,694,000
Machinery and Equipment	717,055	21,085	738,140	
Vehicles	584,416	20,941	605,357	
Infrastructure	4,549,268		4,549,268	
Total Noncurrent Assets	10,329,604	42,026	10,371,630	5,999,018
Total Assets	11,333,085	73,175	11,406,260	6,418,627
LIABILITIES				
Current Liabilities:				
Bond Payments	210,000		210,000	
Financing Obligations	357,515		357,515	192,857
Total Current Liabilities	567,515		567,515	192,857
Noncurrent Liabilities:				
Bond Payments	1,265,000		1,265,000	
Financing Obligations	3,351,149		3,351,149	1,993,953
Total Noncurrent Liabilities	4,616,149		4,616,149	1,993,953
Total Liabilities	5,183,664		5,183,664	2,186,810
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	5,082,850	42,026	5,124,876	3,812,208
Restricted For:				
Debt Service	334,574		334,574	
Unrestricted	731,997	31,149	763,146	419,609
Total Net Assets	\$ 6,149,421	\$ 73,175	\$ 6,222,596	\$ 4,231,817

The accompanying notes are an integral part of the financial statements.

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ROCKCASTLE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

ROCKCASTLE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,906,391	\$ 19,099	\$ 1,467,197	\$
Protection to Persons and Property	1,638,728	13,403	708,076	
General Health and Sanitation	218,133		505,466	
Social Services	15,793			
Recreation and Culture	178,528			
Roads	1,670,426		1,935,724	
Interest on Long-term Debt	274,494		153,722	
Capital Projects	86,920			
Total Governmental Activities	6,989,413	32,502	4,770,185	
Business-type Activities:				
Jail Canteen	74,961	95,438		
Total Business-type Activities	74,961	95,438		
Total Primary Government	\$ 7,064,374	\$ 127,940	\$ 4,770,185	\$
Component Unit:				
Rockcastle County Industrial Development Authorit	\$ 1,460,064	\$	\$ 1,609,388	\$

General Revenues:

Taxes:

Real Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Other Taxes

In Lieu Taxes

Excess Fees

Unrestricted Investment Earnings

Lease Revenues

Miscellaneous Revenues

Loss on Disposal of Assets

Transfer In (Out)

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

ROCKCASTLE COUNTY

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Totals	Rockcastle County Industrial Development Authority
\$ (1,420,095)	\$	\$ (1,420,095)	\$
(917,249)		(917,249)	
287,333		287,333	
(15,793)		(15,793)	
(178,528)		(178,528)	
265,298		265,298	
(120,772)		(120,772)	
(86,920)		(86,920)	
(2,186,726)		(2,186,726)	
	20,477	20,477	
	20,477	20,477	
(2,186,726)	20,477	(2,166,249)	
			\$ 149,324
290,711		290,711	
67,799		67,799	
1,386,574		1,386,574	
932,856		932,856	
51,849		51,849	
78,435		78,435	
10,973	121	11,094	4,341
			330,146
245,974		245,974	36,386
	(6,050)	(6,050)	
40,000	(40,060)	(60)	
3,105,171	(45,989)	3,059,182	370,873
918,445	(25,512)	892,933	520,197
5,230,976	98,687	5,329,663	3,711,620
\$ 6,149,421	\$ 73,175	\$ 6,222,596	\$ 4,231,817

The accompanying notes are an integral part of the financial statements.

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ROCKCASTLE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

ROCKCASTLE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Jail Fund	Public Properties Corporation Fund
ASSETS				
Cash and Cash Equivalents	\$ 491,433	\$ 54,585	\$ 18,731	\$ 247,104
Total Assets	<u>\$ 491,433</u>	<u>\$ 54,585</u>	<u>\$ 18,731</u>	<u>\$ 247,104</u>
FUND BALANCES				
Spendable:				
Restricted	\$	\$	\$	\$ 247,104
Committed	12,232	17,023	32,985	
Assigned:				
Recreation and Culture	1,950			
Protection to Persons and Property				
Roads		37,562		
Unassigned	<u>477,251</u>		<u>(14,254)</u>	
Total Fund Balances	<u>\$ 491,433</u>	<u>\$ 54,585</u>	<u>\$ 18,731</u>	<u>\$ 247,104</u>

The accompanying notes are an integral part of the financial statements.

ROCKCASTLE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2011
(Continued)

Debt Service Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 87,470</u>	<u>\$ 43,107</u>	<u>\$ 942,430</u>
<u>\$ 87,470</u>	<u>\$ 43,107</u>	<u>\$ 942,430</u>
\$ 87,470	\$ 21,317	\$ 355,891
	1,758	63,998
		1,950
	1,800	1,800
	18,232	55,794
		462,997
<u>\$ 87,470</u>	<u>\$ 43,107</u>	<u>\$ 942,430</u>

Reconciliation to the Statement of Net Assets:

Total Fund Balances	\$ 942,430
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	14,048,827
Accumulated Depreciation	(3,782,313)
Current Receivables	61,051
Non-current Receivables	63,091
Long-term Debt is Not Due And Payable in the Current Period And, Therefore, Is Not Reported in the Funds.	
Due Within One Year - Bonds, Notes, And Other Principal Payments	(567,515)
Due in More Than One Year - Bonds, Notes, And Other Principal Payments	(4,616,150)
Net Assets Of Governmental Activities	<u>\$ 6,149,421</u>

The accompanying notes are an integral part of the financial statements.

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ROCKCASTLE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

ROCKCASTLE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	General Fund	Road Fund	Jail Fund	Public Properties Corporation Fund
REVENUES				
Taxes	\$ 2,418,371	\$	\$	\$
In Lieu Tax Payments		51,849		
Excess Fees	78,435			
Licenses and Permits	18,755			
Intergovernmental	1,467,197	1,935,724	708,076	153,722
Charges for Services	19,099		13,403	
Miscellaneous	121,551	75,217	13,071	
Interest	1,377	618	89	5,621
Total Revenues	<u>4,124,785</u>	<u>2,063,408</u>	<u>734,639</u>	<u>159,343</u>
EXPENDITURES				
General Government	1,998,909	18,000		
Protection to Persons and Property	158,251	25,454	920,559	
General Health and Sanitation	72,339	154,804		
Social Services	15,793			
Recreation and Culture	224,558			
Roads		1,607,263		
Debt Service	1,059,673	182,484	104,452	169,744
Capital Projects	86,920			
Administration	253,047	211,974	216,049	
Total Expenditures	<u>3,869,490</u>	<u>2,199,979</u>	<u>1,241,060</u>	<u>169,744</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>255,295</u>	<u>(136,571)</u>	<u>(506,421)</u>	<u>(10,401)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	458,031	200,000	476,100	10,146
Transfers To Other Funds	(662,666)	(69,257)		
Total Other Financing Sources (Uses)	<u>(204,635)</u>	<u>130,743</u>	<u>476,100</u>	<u>10,146</u>
Net Change in Fund Balances	50,660	(5,828)	(30,321)	(255)
Fund Balances - Beginning (Restated)	440,773	60,413	49,052	247,359
Fund Balances - Ending	<u>\$ 491,433</u>	<u>\$ 54,585</u>	<u>\$ 18,731</u>	<u>\$ 247,104</u>

The accompanying notes are an integral part of the financial statements.

ROCKCASTLE COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Debt Service Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 259,568	\$ 2,677,939
		51,849
		78,435
		18,755
6,936	505,466	4,777,121
		32,502
	10,559	220,398
2,626	642	10,973
9,562	776,235	7,867,972
	42,980	2,059,889
	526,525	1,630,789
		227,143
		15,793
	2,412	226,970
	169,475	1,776,738
76,513		1,592,866
	7,165	94,085
	87,158	768,228
76,513	835,715	8,392,501
(66,951)	(59,480)	(524,529)
69,577	6,100	1,219,954
(443,031)	(5,000)	(1,179,954)
(373,454)	1,100	40,000
(440,405)	(58,380)	(484,529)
527,875	101,487	1,426,959
\$ 87,470	\$ 43,107	\$ 942,430

The accompanying notes are an integral part of the financial statements.

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**ROCKCASTLE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

ROCKCASTLE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$	(484,529)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		535,077
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Depreciation Expense		(389,281)
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The proceeds of receipt of accounts receivable provide current financial resources and are reported in this fund financial statement but they are presented as a reduction of assets in the Statement of Net Assets.		(61,194)
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The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligations Principal Payments		1,118,372
--	--	-----------

Bond Principal Payments		200,000
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Change in Net Assets of Governmental Activities	\$	918,445
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ROCKCASTLE COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

ROCKCASTLE COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 31,149
Total Current Assets	<u>31,149</u>
Noncurrent Assets:	
Capital Assets:	
Machinery and Equipment	38,593
Vehicles	102,162
Less Accumulated Depreciation	<u>(98,729)</u>
Total Noncurrent Assets	<u>42,026</u>
Total Assets	<u>73,175</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	42,026
Unrestricted	31,149
Total Net Assets	<u><u>\$ 73,175</u></u>

The accompanying notes are an integral part of the financial statements.

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ROCKCASTLE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

ROCKCASTLE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 95,438
Total Operating Revenues	<u>95,438</u>
Operating Expenses	
Cost of Sales	62,632
Educational and Recreational	4,902
Supplies	534
Depreciation	6,893
Total Operating Expenses	<u>74,961</u>
Operating Income	<u>20,477</u>
Nonoperating Revenues	
Interest Income	121
Loss on Disposal of Assets	(6,050)
Transfers Out	(40,060)
Total Nonoperating Revenues	<u>(45,989)</u>
Change In Net Assets	(25,512)
Total Net Assets - Beginning	98,687
Total Net Assets - Ending	<u><u>\$ 73,175</u></u>

The accompanying notes are an integral part of the financial statements.

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ROCKCASTLE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

ROCKCASTLE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 95,438
Cash Payments to Vendors	(68,068)
Net Cash Provided By Operating Activities	<u>27,370</u>
Cash Flows From Noncapital and Related Financing Activities	
Purchase of Equipment	(8,193)
Transfers Out	(40,060)
Net Cash (Used) in Noncapital and Related Financing Activities	<u>(48,253)</u>
Cash Flows From Investing Activities	
Interest Earned	<u>121</u>
Net Cash Provided By Investing Activities	<u>121</u>
Net Decrease in Cash and Cash Equivalents	(20,762)
Cash and Cash Equivalents - July 1, 2010	<u>51,911</u>
Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 31,149</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 20,477
Adjustment to Reconcile Operating Income To Net Cash Provided By Operating Activities	
Depreciation Expense	<u>6,893</u>
Net Cash Provided By Operating Activities	<u><u>\$ 27,370</u></u>

The accompanying notes are an integral part of the financial statements.

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ROCKCASTLE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

ROCKCASTLE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	<u>Agency Fund</u>
	<u>Jail Inmate Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 11,687</u>
Total Assets	<u>11,687</u>
Liabilities	
Amounts Held In Custody For Others	<u>11,687</u>
Total Liabilities	<u>11,687</u>
Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements present the operations of Rockcastle County Fiscal Court, the primary government, as well as its discretely presented component unit, the Rockcastle County Industrial Development Authority.

The County presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. The Governmental Accounting Standards Board (GASB) is the standard setting body for governmental accounting and financial reporting. The GASB periodically updates its Codification of existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (*Statements and Interpretations*) constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The County follows GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis for State and Local Governments*. The County adopted GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the fiscal period ending June 30, 2011. The statements contained herein reflect the changes in fund balance reporting and presentation. The County's operations are organized into the following general functions: general government, public safety, sanitation, social services, recreation and culture and other enterprises. For financial reporting purposes, the County includes all funds, agencies, boards, and entities that are fiscally dependent on the County and for which the County is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as components units if either the County is financially accountable or the organization's exclusions would cause the County's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All others component units are discretely presented.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the County is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the County's primary government using the blending method.

Rockcastle County Public Properties Corporation

The County has the authority to appoint a voting majority of the Public Properties Corporation's (PPC) Board of Directors. The County also has the ability to approve or modify the PPC's budget; approve or modify rate of fee changes affecting revenues; veto, overrule, or modify decisions of the Board of Directors; or otherwise impose its will on the PPC. In addition, the County is financially accountable for the PPC, legally entitled to the PPC's resources, and legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Rockcastle County's financial statements.

Discretely Presented Component Unit

The component unit column in the combined financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize the organization's separateness from the County's primary government.

Rockcastle County Industrial Development Authority

The Industrial Development Authority (IDA) was established by the Rockcastle County Fiscal Court to retain and recruit businesses and job opportunities within the County. The County provides additional funding to the IDA as needed to carry out the IDA's objectives. The County is financially accountable and legally obligated for any debt incurred by the IDA. Exclusion of this entity as a component unit of Rockcastle County would cause the County's financial statements to be misleading or incomplete. The financial information for the IDA is presented discretely within Rockcastle County's financial statements. All activities of the IDA are accounted for within a governmental fund.

C. Rockcastle County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Rockcastle County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the County, various cities and special districts within the County, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Rockcastle County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Rockcastle County Elected Officials (Continued)

- County Sheriff
- Coroner

C. Government-wide and Fund Financial Statements

Government-wide Statements

The basic financial statements include both government-wide and fund financial statements. The reporting model under GASB Statement No. 34 focuses on the County as a whole in the government-wide financial statements and major individual funds in the fund financial statements. Both types of statements categorize primary activities as governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The government-wide financial statements (i.e. the *Statement of Net Assets and the Statement of Activities*) report information on all of the nonfiduciary activities of the County. For the most part, the effect of interfund activity has been removed from these statements. Interfund contributions are eliminated among governmental activities, but are recorded as transfers in the fund financial statements if between governmental and business-type activities. In the *Statement of Net Assets*, both the governmental and business-type activities columns are (1) presented on a consolidated basis by column and (b) are on a modified cash, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The *Statement of Activities* reflects the direct expenses of each functional category or identifiable activity which are supported by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included in program revenues are reported instead as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Fund Financial Statements

The financial transactions of the County are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of assets, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The County may also designate any fund as a major fund.

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the County. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the County to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - This fund is used to account for the jail expenses of the County. The primary sources of revenue for this fund are reimbursements from the state and federal government, from other counties for housing prisoners, and transfers from other funds. The Department for Local Government requires the County to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Fund - This fund is a legally separate entity established to provide long-term debt service requirements of the County.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

The government also has the following non-major funds: LGEA Fund, Forestry Fund, 911 Fund, CSEPP Fund, and LECP Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the County's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the County treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The County's agency funds are used to account for monies held by the County in the Jail Inmate Fund for custodial purposes only. Unlike other funds, agency funds report assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund – This accounts for funds received from inmates and held until inmates use these funds or are released from custody.

Presentation of Component Unit

The financial statements present the Rockcastle County Industrial Development Authority (IDA) as a discretely presented component unit. Rockcastle County Fiscal Court's significant transactions with the IDA for fiscal year ended June 30, 2011 are payments of \$561,247 from the governmental activities.

Use of restricted Funds

When both restricted and unrestricted resources are available for use, it is the Rockcastle County Fiscal Court's policy to use restricted resources first, then unrestricted resources as they are needed.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Deposits and Investments

For purposes of the statement of cash flows, the government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the County to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

<u>Description</u>	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 1,500	10-75
Buildings and Building Improvements	\$ 1,000	10-60
Machinery and Equipment	\$ 1,000	2-10
Vehicles	\$ 1,000	10-25
Infrastructure	\$ 1,000	10-60

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Fund Equity

Rockcastle County Fiscal Court implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. Rockcastle County Fiscal Court has not reported any amounts that are legally or contractually required to be maintained intact.
- Spendable includes the following:
 - Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
 - Committed – Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by the Rockcastle County Fiscal Court. Committed amounts cannot be used for any other purpose unless the Rockcastle County Fiscal Court removes those constraints by taking the same type of action (e.g. legislation, resolution, ordinance). Committed fund balances include non-liquidated encumbrances at year end that are carried forward to the next fiscal year. Amounts in the committed fund balance classification may be used for other purposes with appropriate due process by the Rockcastle County Fiscal Court. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.
 - Assigned – includes amounts that Rockcastle County Fiscal Court intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under Rockcastle County Fiscal Court's policy, amounts may be assigned under the authorization of the Judge Executive's office.
 - Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. Rockcastle County Fiscal Court reports all amounts that meet the unrestricted General Fund Balance Policy described below as unassigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Treasurer to carry out the intent of the fiscal court.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, Rockcastle County Fiscal Court considers restricted funds to have been spent first. Unrestricted resources are those considered committed, assigned and unassigned by Rockcastle County Fiscal court and will be spent in that order.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Fund Equity (Continued)

Beginning fund balances for the County's governmental funds have been restated to reflect the above classifications.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into on the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the County by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the County by July 1.

The County may change the original budget by transferring appropriations at the activity level; however, the County may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget was not adopted for the Public Properties Corporation fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the other funds to comply with these requirements. In addition, a formal budget for the Jail Canteen Fund is not adopted nor is it required by the Department for Local Government.

A formal budget was not adopted for the Rockcastle County Industrial Development Authority because this entity is a component unit of the County and the financial activity is not required to be included in the budget or financial statements of the primary government. The County established this entity as a component unit, which is operated independently of the Rockcastle County. This entity is included as a discretely presented component unit on the County's financial statements.

I. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on the criteria the following are considered related organizations of Rockcastle County: the Rockcastle County Ambulance Service, the Western Rockcastle County Water Association and the Eastern Rockcastle County Water Association.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 2. Deposits

The County and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and an official record of the depository institution.

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2011, the County's deposits were insured and collateralized.

Note 3. Long-Term Receivables

A. Western Rockcastle County Water Association

The Rockcastle County Fiscal Court has entered into a financing obligation on behalf of Western Rockcastle County Water Association for the purpose of constructing a water line. The loan was for a period of 20 years at 2.95 percent interest with 40 equal semi-annual payments in the amount of \$12,131 plus fees. The Rockcastle County Water Association has agreed to pay all debt service requirements on the financing obligation. Future payments due to Rockcastle County Fiscal Court are:

<u>Fiscal Year Ended</u>		
<u>June 30</u>	<u>Principal</u>	<u>Interest & Fees</u>
2012	\$ 22,386	\$ 1,877
2013	23,050	1,211
2014	<u>23,736</u>	<u>526</u>
Totals	<u>\$ 69,172</u>	<u>\$ 3,614</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 3. Long-Term Receivables (Continued)

B. Rockcastle Ambulance

The Rockcastle County Fiscal Court has entered into a financing obligation on behalf of the Rockcastle Ambulance Service for the purchase of an ambulance. The loan was for a period of 5 years at 4.25 percent interest and matures on June 1, 2012. The Rockcastle Ambulance Service has agreed to pay all debt service requirements on the financing obligation. Future payments due to Rockcastle County Fiscal Court are:

Fiscal Year Ended June 30	Principal	Interest & Fees
2012	\$ 6,624	\$ 282
Totals	<u>\$ 6,624</u>	<u>\$ 282</u>

C. Rockcastle Ambulance

The Rockcastle County Fiscal Court has entered into a financing obligation on behalf of the Rockcastle Ambulance Service for the purchase of an ambulance. The loan was for a period of 8 years at 4.25 percent interest and matures on March 20, 2012. The Rockcastle Ambulance Service has agreed to pay all debt service requirements on the financing obligation. Future payments due to Rockcastle County Fiscal Court are:

Fiscal Year Ended June 30	Principal	Interest & Fees
2012	\$ 5,556	\$ 91
Totals	<u>\$ 5,556</u>	<u>\$ 91</u>

D. Rockcastle Ambulance

The Rockcastle County Fiscal Court has entered into a financing obligation on behalf of the Rockcastle Ambulance Service for the purchase of an ambulance. The loan was for a period of 5 years at variable interest rates and matures on August 20, 2013. The Rockcastle Ambulance Service has agreed to pay all debt service requirements on the financing obligation. Future payments due to Rockcastle County Fiscal Court are:

Fiscal Year Ended June 30	Principal	Interest & Fees
2012	\$ 6,202	\$ 678
2013	6,511	411
2014	<u>1,117</u>	<u>42</u>
Total	<u>\$ 13,830</u>	<u>\$ 1,131</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 3. Long-Term Receivables (Continued)

E. Rockcastle Ambulance

The Rockcastle County Fiscal Court has entered into a financing obligation on behalf of the Rockcastle Ambulance Service for the purchase of an ambulance. The loan was for a period of 3 years at variable interest rates and matures on November 20, 2012. The Rockcastle Ambulance Service has agreed to pay all debt service requirements on the financing obligation. Future payments due to Rockcastle County Fiscal Court are:

	Fiscal Year Ended	
	June 30	
	Principal	Interest & Fees
2012	\$ 20,283	\$ 820
2013	8,676	90
Total	<u>\$ 28,959</u>	<u>\$ 910</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 410,000	\$ 24,500	\$	\$ 434,500
Total Capital Assests Not Being Depreciated	410,000	24,500		434,500
Capital Assets, Being Depreciated:				
Land Improvements	177,680	23,153		200,833
Buildings and Improvements	4,884,619	52,434		4,937,053
Machinery and Equipment	1,899,880	132,655		2,032,535
Vehicles	1,283,256	159,700		1,442,956
Infrastructure	4,858,315	142,635		5,000,950
Total Capital Assets Being Depreciated	13,103,750	510,577		13,614,327
Less Accumulated Depreciation For:				
Land Improvements	(19,598)	(16,111)		(35,709)
Buildings and Improvements	(1,042,426)	(78,476)		(1,120,902)
Machinery and Equipment	(1,252,755)	(62,725)		(1,315,480)
Vehicles	(735,896)	(122,644)		(858,540)
Infrastructure	(342,357)	(109,325)		(451,682)
Total Accumulated Depreciation	(3,393,032)	(389,281)		(3,782,313)
Total Capital Assets, Being Depreciated, Net	9,710,718	121,296		9,832,014
Governmental Activities Capital Assets, Net	<u>\$ 10,120,718</u>	<u>\$ 145,796</u>	<u>\$</u>	<u>\$ 10,266,514</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Machinery and Equipment	\$ 30,398	\$ 8,193	\$	\$ 38,591
Vehicles	114,771		(12,607)	102,164
Total Capital Assets Being Depreciated	145,169	8,193	(12,607)	140,755
Less Accumulated Depreciation For:				
Machinery and Equipment	(14,870)	(2,636)		(17,506)
Vehicles	(83,523)	(4,257)	6,557	(81,223)
Total Accumulated Depreciation	(98,393)	(6,893)	6,557	(98,729)
Total Capital Assets, Being Depreciated, Net	46,776	1,300	(6,050)	42,026
Business-Type Activities Capital Assets, Net	\$ 46,776	\$ 1,300	\$ (6,050)	\$ 42,026

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 97,324
Protection to Persons and Property	127,870
Recreation and Culture	27,145
Roads, Including Depreciation of General Infrastructure Assets	<u>136,942</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 389,281</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 6,893</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 6,893</u>

Capital asset activity for the discretely presented component unit for the year ended June 30, 2011 is as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 2,242,401	\$	\$ (852,592)	\$ 1,389,809
Construction In Progress	835,804	1,192,248	(2,028,052)	
Total Capital Assets Not Being Depreciated	3,078,205	1,192,248	(2,880,644)	1,389,809
Capital Assets, Being Depreciated:				
Land Improvements	25,800	2,028,052		2,053,852
Buildings and Improvements	2,790,000			2,790,000
Total Capital Assets Being Depreciated	2,815,800	2,028,052		4,843,852
Less Accumulated Depreciation For:				
Land Improvements	(1,720)	(136,923)		(138,643)
Buildings and Improvements	(49,800)	(46,200)		(96,000)
Total Accumulated Depreciation	(51,520)	(183,123)		(234,643)
Total Capital Assets, Being Depreciated, Net	2,764,280	1,844,929		4,609,209
Capital Assets, Net	\$ 5,842,485	\$ 3,037,177	\$ (2,880,644)	\$ 5,999,018

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to function of the discretely presented component unit as follows:

Industrial Development Authority	<u>\$ 183,123</u>
Total Depreciation Expense - Component Unit	<u><u>\$ 183,123</u></u>

Note 5. Long-term Debt

A. Public Properties First Mortgage Refunding Revenue Bonds, Series 1997

The Rockcastle County Public Properties Corporation issued obligations of \$1,830,000, dated October 1, 1997 and payable in 15 annual installments beginning March 1, 1998 and semi-annual interests payments on the first of March and September at varying rates from 4.60% to 5.90%. The bonds were issued for the purpose of refunding the Series 1991 bonds issued by Rockcastle County Public Properties Corporation. As of June 30, 2011, bonds outstanding were \$415,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2012	\$ 150,000	\$ 21,165
2013	<u>265,000</u>	<u>13,515</u>
Total	<u><u>\$ 415,000</u></u>	<u><u>\$ 34,680</u></u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

B. General Obligation Refunding Bonds, Series 2007

The Rockcastle County Fiscal Court issued obligations of \$1,325,000, dated April 12, 2007 and payable in 19 annual installments beginning June 1, 2007 and semi-annual interest payments on the first of June and December at varying rates from 4.1% to 4.55%. The Fiscal Court issued the bonds for the purpose of refinancing the Kentucky Area Development Districts Financing Trust Debt, issued for the purpose of refinancing jail renovations and a fire truck for Brindle Ridge Fire Department. As of June 30, 2011, bonds outstanding were \$1,060,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2012	\$ 60,000	\$ 47,143
2013	60,000	44,623
2014	65,000	42,043
2015	65,000	39,248
2016	70,000	36,453
2017-2021	390,000	133,845
2022-2025	350,000	40,495
Total	<u>\$ 1,060,000</u>	<u>\$ 383,850</u>

C. Note Payable - KIA

On June 1, 1994, Rockcastle County borrowed \$364,572 from the Kentucky Infrastructure Authority for the purpose of constructing a water line for the Western Rockcastle Water Association. The loan was for a period of 20 years at 2.95 percent interest with 40 equal semi-annual payments in the amount of \$12,131. The principal balance due at June 30, 2011 was \$69,172.

Fiscal Year Ended June 30	Principal	Interest & Fees
2012	\$ 22,386	\$ 1,877
2013	23,050	1,211
2014	23,736	526
Total	<u>\$ 69,172</u>	<u>\$ 3,614</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

D. Financing Obligation - Ambulance Lease

On August 4, 2008, Rockcastle County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust in the amount of \$30,000 to purchase an ambulance. Principal and interest, at a variable rate, is paid monthly for a period of 5 years. The principal balance due at June 30, 2011 was \$13,830. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest & Fees
2012	\$ 6,202	\$ 678
2013	6,511	411
2014	1,117	42
Total	<u>\$ 13,830</u>	<u>\$ 1,131</u>

E. Financing Obligation – Land Purchase

On May 18, 2009, Rockcastle County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$2,500,000 to purchase land. Principal and interest at a variable rate is paid monthly for a period of 20 years. The principal balance due at June 30, 2011 was \$1,543,140. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2012	\$ 95,000	\$ 64,738
2013	96,000	60,638
2014	96,000	56,564
2015	105,000	52,338
2016	108,000	47,823
2017-2021	606,000	165,734
2022-2025	437,140	33,193
Total	<u>\$ 1,543,140</u>	<u>\$ 481,028</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

F. Financing Obligation - Building and Fire Equipment Lease

On January 23, 2003, Rockcastle County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$55,000 to purchase fire equipment. Principal and interest at a rate of 3.96 percent is paid monthly for a period of 15 years. The principal balance due at June 30, 2011 was \$30,071. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2012	\$ 3,762	\$ 1,352
2013	3,928	1,171
2014	4,100	981
2015	4,280	783
2016	4,468	576
2017-2018	9,533	495
Total	<u>\$ 30,071</u>	<u>\$ 5,358</u>

G. Financing Obligations - Ambulance Lease

On August 23, 2004, Rockcastle County Fiscal Court entered into a capital lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of an ambulance. The principal was \$50,000 at an effective interest rate of 4.47 percent for a period of eight years, with principal and interest paid monthly. The principal balance outstanding as of June 30, 2011 was \$5,556. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2012	\$ 5,556	\$ 91
Total	<u>\$ 5,556</u>	<u>\$ 91</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

H. Financing Obligation - Industrial Development Authority Lease

In January 2006, Rockcastle County began making payments on a lease agreement between the Industrial Development Authority and Kentucky Association of Counties Leasing Trust. Principal and interest at a rate of 2.75 percent is paid monthly. The lease matures on April 20, 2013. The principal balance due at June 30, 2011 was \$21,947. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2012	\$ 11,665	\$ 648
2013	10,282	211
Total	<u>\$ 21,947</u>	<u>\$ 859</u>

I. Financing Obligations - KADD Lease

On June 1, 2007, Rockcastle County entered into a lease agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$340,000 to pay a short-term note at Citizens Bank and to purchase an ambulance for the Ambulance Service. Principal is paid annually and interest, at a rate of 4.25 percent, is paid semi-annually for a period of 5 years. The principal balance due at June 30, 2011 was \$75,000. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2012	\$ 75,000	\$ 3,187
Total	<u>\$ 75,000</u>	<u>\$ 3,187</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

J. Financing Obligations – Fire Truck Lease

On November 13, 2007, Rockcastle County Fiscal Court entered into a capital lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of a fire truck for the Livingston Fire Department. The principal was \$65,000 at an effective interest rate of 4.56 percent for a period of ten years, with principal and interest paid monthly. The principal balance outstanding as of June 30, 2011 was \$44,207. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2012	\$ 6,270	\$ 2,351
2013	6,487	2,035
2014	6,712	1,704
2015	6,945	1,356
2016	7,185	818
2017-2018	10,608	914
Total	<u>\$ 44,207</u>	<u>\$ 9,178</u>

K. Financing Obligations - Ambulance Lease

On December 20, 2009, Rockcastle County Fiscal Court entered into a capital lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of an ambulance. The principal was \$58,000 at an effective interest rate of 1.85 percent for a period of three years, with principal and interest paid monthly. The principal balance outstanding as of June 30, 2011 was \$28,960. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest & Fees
2012	\$ 20,283	\$ 820
2013	8,677	90
Total	<u>\$ 28,960</u>	<u>\$ 910</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

L. Financing Obligations – Pongo Fire Department Lease

On November 27, 2007, Rockcastle County Fiscal Court entered into a capital lease agreement with Kentucky Association of Counties Leasing Trust for the construction of the Pongo Fire Department. The principal was \$90,000 at an effective interest rate of 4.871 percent for a period of 20 years, with principal and interest paid monthly. The principal balance outstanding as of June 30, 2011 was \$81,000. Future principal and interest requirements are:

Fiscal Year Ended		
June 30	Principal	Interest
2012	\$ 3,000	\$ 3,768
2013	3,000	3,632
2014	4,000	3,455
2015	4,000	3,274
2016	4,000	3,093
2017-2021	22,000	12,622
2022-2026	28,000	6,853
2027-2028	13,000	612
Total	<u>\$ 81,000</u>	<u>\$ 37,309</u>

M. Financing Obligations – Road Resurfacing

On June 22, 2009, Rockcastle County Fiscal Court entered into a capital lease agreement with Kentucky Association of Counties Leasing Trust for the purpose of resurfacing roads. The principal was \$2,000,000 at an effective interest rate of 3 percent for a period of fifteen years, with principal and interest paid monthly. The principal balance outstanding as of June 30, 2011 was \$1,795,781. Future principal and interest requirements are:

Fiscal Year Ended		
June 30	Principal	Interest
2012	\$ 108,391	\$ 75,030
2013	112,807	70,311
2014	117,403	65,435
2015	122,186	60,333
2016	127,164	55,105
2017-2021	717,887	188,341
2022-2024	489,943	34,359
Total	<u>\$ 1,795,781</u>	<u>\$ 548,914</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

N. Financing Obligations – Industrial Authority

The Rockcastle County Industrial Development Authority entered into a loan with Community Trust Bank to construct a building. The total amount of the loan was \$2,700,000. The interest rate is 4% with principal and interest to be paid monthly for a period of fifteen years. The principal balance outstanding at June 30, 2011 was \$2,186,810. Future interest and principal payments are as follows:

Fiscal Year Ended		
June 30	Principal	Interest
2012	\$ 192,857	\$ 83,937
2013	192,857	76,222
2014	192,857	68,508
2015	192,857	60,794
2016	192,857	53,080
2016-2021	964,285	149,683
2022-2023	258,240	7,348
Total	<u>\$ 2,186,810</u>	<u>\$ 499,572</u>

Note 6. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Bonds	\$ 1,675,000	\$	\$ 200,000	\$ 1,475,000	\$ 210,000
Financing Obligations	4,827,036		1,118,372	3,708,664	357,515
Governmental Activities Long-term Liabilities	<u>\$ 6,502,036</u>	<u>\$</u>	<u>\$ 1,318,372</u>	<u>\$ 5,183,664</u>	<u>\$ 567,515</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Discretely presented component unit:					
<u>Governmental Activities:</u>					
Bank Note Payable	\$ 2,488,176	\$	\$ 301,366	\$ 2,186,810	\$ 192,857
Governmental Activities Short-term Liabilities	<u>\$ 2,488,176</u>	<u>\$</u>	<u>\$ 301,366</u>	<u>\$ 2,186,810</u>	<u>\$ 192,857</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Non-hazardous covered employees who began participation prior to September 1, 2008 are required to contribute 5 percent of their salary to the plan. Non-hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The County's contribution rate for non-hazardous employees was 16.93 percent.

Hazardous covered employees who began participation prior to September 1, 2008 are required to contribute 8 percent of their salary to the plan. Hazardous employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was ? percent.

The contribution requirement for CERS for the years ended June 30, 2011, 2010 and 2009 were \$358,011, \$330,769, and \$259,874 respectively.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who began participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum age of 57 years of age) or the member is age 65 with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who began participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Employee Retirement System (Continued)

Hazardous employees who participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receive ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Interfund Receivables, Payables and Transfers

At June 30, 2011, no amounts were reported as interfund receivables and payables in the fund financial statements. For the year then ended, interfund transfers consisted of the following:

<u>In Fund</u>	<u>Out Fund</u>	<u>Amount</u>
Road	General	\$ 200,000
CSEPP		5,000
Jail		446,100
Forestry		1,100
Debt Service		320
Public Properties Corporation		10,146
Debt Service	Road	69,257
General	Debt Service Fund	443,031
General	CSEPP	5,000
General	Jail Commissary	10,000
Jail		30,000
		<u>\$ 1,219,954</u>

Transfers are indicative of funding for capital projects, debt service payments, subsidies of various county operations and re-allocations of special revenues.

Note 9. Deferred Compensation

Rockcastle County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 9. Deferred Compensation (Continued)

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at 502-573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2011, Rockcastle County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the member, the members are responsible for the payment of the excess losses.

Note 11. Flood Damage

During the month of May 2011, a major disaster was declared for the Commonwealth of Kentucky due to severe storms, flooding, mudslides and tornadoes. This disaster directly impacted Rockcastle County causing significant damage to residential and business properties. Included in the financial statements for the year ended June 30, 2011, are \$716,041 of operating expenses incurred as a result of the disaster and \$545,518 in federal grants received from the Federal Emergency Management Agency.

Note 12. Beginning Balances Restated

See Note 1 Summary of Significant Accounting Policies, G. Fund Equity, for a description of the change in accounting principle. The prior year net asset and fund balance ending balances for the primary government have been restated for the following:

	General Fund	Road Fund	Jail Fund	CSEPP Fund	Fairgrounds Fund
Fund balance, June 30, 2010 as previously reported	\$ 430,630	\$ 60,399	\$ 48,417	\$ 18,645	\$ 9,153
Change in accounting principle	9,153				(9,153)
Prior Year Voided Checks	990	14	635	1,558	
Fund balance, June 20, 2010 as restated	<u>\$ 440,773</u>	<u>\$ 60,413</u>	<u>\$ 49,052</u>	<u>\$ 20,203</u>	<u>\$</u>

Note 13. Subsequent Events

No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements. The Organization has evaluated subsequent events through November 15, 2011, which is the date the financial statements were available to be issued.

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 2,261,050	\$ 2,275,812	\$ 2,418,371	\$ 142,559
In Lieu Tax Payments	10,500	10,500		(10,500)
Excess Fees	73,500	78,685	78,435	(250)
Licenses and Permits	18,750	18,750	18,755	5
Intergovernmental Revenue	248,701	1,419,814	1,467,197	47,383
Charges for Services	10,500	17,752	19,099	1,347
Miscellaneous	38,000	94,435	105,909	11,474
Interest	3,000	3,000	1,377	(1,623)
Total Revenues	2,664,001	3,918,748	4,109,143	190,395
EXPENDITURES				
General Government	1,319,435	1,613,317	1,998,909	(385,592)
Protection to Persons and Property	136,300	188,640	158,251	30,389
General Health and Sanitation	54,850	74,451	72,339	2,112
Social Services	19,665	27,165	15,793	11,372
Recreation and Culture	85,100	220,225	202,918	17,307
Debt Service	276,800	1,058,674	1,059,673	(999)
Capital Projects	71,000	607,920	86,920	521,000
Administration	246,729	276,014	252,844	23,170
Total Expenditures	2,209,879	4,066,406	3,847,647	218,759
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	454,122	(147,658)	261,496	409,154
OTHER FINANCING SOURCES (USES)				
Governmental Leasing Proceeds		443,031		443,031
Transfers From Other Funds			455,033	455,033
Transfers To Other Funds	(704,122)	(709,122)	(662,666)	46,456
Total Other Financing Sources (Uses)	(704,122)	(266,091)	(207,633)	944,520
Net Changes in Fund Balance	(250,000)	(413,749)	53,863	467,612
Fund Balance - Beginning (Restated)	250,000	425,899	431,620	5,721
Fund Balance - Ending	\$	\$ 12,150	\$ 485,483	\$ 473,333

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
In Lieu Tax Payments	\$ 25,000	\$ 51,849	\$ 51,849	\$
Intergovernmental Revenue	1,060,500	1,954,769	1,935,724	(19,045)
Miscellaneous	10,500	70,281	75,217	4,936
Interest	1,000	1,000	618	(382)
Total Revenues	1,097,000	2,077,899	2,063,408	(14,491)
EXPENDITURES				
General Government	18,000	18,000	18,000	
Protection to Persons and Property	75,000	77,500	25,454	52,046
General Health and Sanitation	47,000	160,154	154,804	5,350
Roads	790,200	1,683,655	1,607,263	76,392
Debt Service	251,550	252,066	182,484	69,582
Administration	265,660	296,847	211,974	84,873
Total Expenditures	1,447,410	2,488,222	2,199,979	288,243
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(350,410)	(410,323)	(136,571)	273,752
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	349,910	349,910	200,000	(149,910)
Transfers To Other Funds			(69,257)	(69,257)
Total Other Financing Sources (Uses)	349,910	349,910	130,743	(219,167)
Net Changes in Fund Balance	(500)	(60,413)	(5,828)	54,585
Fund Balance - Beginning (Restated)	500	60,413	60,413	
Fund Balance - Ending	\$	\$	\$ 54,585	\$ 54,585

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 787,200	\$ 808,547	\$ 708,076	\$ (100,471)
Charges for Services	16,000	22,587	13,403	(9,184)
Miscellaneous	20,000	20,000	13,071	(6,929)
Interest	250	250	89	(161)
Total Revenues	823,450	851,384	734,639	(116,745)
EXPENDITURES				
Protection to Persons and Property	873,862	931,803	920,559	11,244
Debt Service	104,750	104,750	104,452	298
Administration	199,550	218,048	216,049	1,999
Total Expenditures	1,178,162	1,254,601	1,241,060	13,541
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(354,712)	(403,217)	(506,421)	(103,204)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	354,212	354,212	476,100	121,888
Total Other Financing Sources (Uses)	354,212	354,212	476,100	121,888
Net Changes in Fund Balance	(500)	(49,005)	(30,321)	18,684
Fund Balance - Beginning (Restated)	500	49,005	49,052	47
Fund Balance - Ending	\$	\$	\$ 18,731	\$ 18,731

ROCKCASTLE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the County by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the County by July 1.

The County may change the original budget by transferring appropriations at the activity level; however, the County may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Statement of Revenues, Expenditures, and Changes in Fund Balance-Modified Cash Basis differs from the Budgetary Comparison Schedule for the General Fund due to the following:

Revenues

Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$ 4,109,143
Reclassifications:	
Budgetary fairgrounds fund reclassified to general fund for GAAP reporting	<u>15,642</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u><u>\$ 4,124,785</u></u>

Expenditures

Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$ 3,861,186
Reclassifications:	
Budgetary fairgrounds fund reclassified to general fund for GAAP reporting	<u>21,843</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u><u>\$ 3,883,029</u></u>
Other Financing Sources (Uses)	
Actual amounts (budgetary basis) "other financing sources (uses)" from the budgetary comparison schedules	\$ (207,633)
Reclassifications:	
Budgetary fairgrounds fund reclassified to general fund for GAAP reporting	<u>2,998</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u><u>\$ (204,635)</u></u>

**ROCKCASTLE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2011

ROCKCASTLE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

	LGEA Fund	Forestry Fund	911 Fund	CSEPP Fund
ASSETS				
Cash and Cash Equivalents	\$ 18,232	\$ 361	\$ 18,021	\$ 4,693
Total Assets	<u>\$ 18,232</u>	<u>\$ 361</u>	<u>\$ 18,021</u>	<u>\$ 4,693</u>
FUND BALANCES				
Spendable:				
Restricted	\$	\$ 361	\$ 17,699	\$ 3,257
Committed			322	1,436
Assigned:				
Protection to Persons and Property				
Roads	<u>18,232</u>			
Total Fund Balances	<u>\$ 18,232</u>	<u>\$ 361</u>	<u>\$ 18,021</u>	<u>\$ 4,693</u>

The accompanying notes are an integral part of the financial statements.

ROCKCASTLE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2011
(Continued)

LEPC Fund	Total Non-Major Governmental Funds
<u>\$ 1,800</u>	<u>\$ 43,107</u>
<u><u>\$ 1,800</u></u>	<u><u>\$ 43,107</u></u>
\$	\$ 21,317 1,758
1,800	1,800 18,232
<u>1,800</u>	<u>18,232</u>
<u><u>\$ 1,800</u></u>	<u><u>\$ 43,107</u></u>

The accompanying notes are an integral part of the financial statements.

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ROCKCASTLE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011

ROCKCASTLE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

	LGEA Fund	Forestry Fund	911 Fund
REVENUES			
Taxes	\$	\$ 1,536	\$ 258,032
Intergovernmental	209,336		
Miscellaneous			5,452
Interest	594	5	43
Total Revenues	<u>209,930</u>	<u>1,541</u>	<u>263,527</u>
EXPENDITURES			
General Government	42,980		
Protection to Persons and Property	22,276	2,554	207,329
Recreation and Culture	2,412		
Roads	169,475		
Capital Projects	7,165		
Administration	3,541		60,314
Total Expenditures	<u>247,849</u>	<u>2,554</u>	<u>267,643</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(37,919)</u>	<u>(1,013)</u>	<u>(4,116)</u>
Other Financing Sources			
Transfers From Other Funds		1,100	
Transfers To Other Funds			
Total Other Financing Sources		<u>1,100</u>	
Net Change in Fund Balances	(37,919)	87	(4,116)
Fund Balances - Beginning (Restated)	56,151	274	22,137
Fund Balances - Ending	<u>\$ 18,232</u>	<u>\$ 361</u>	<u>\$ 18,021</u>

The accompanying notes are an integral part of the financial statements.

ROCKCASTLE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011
(Continued)

CSEPP Fund	LEPC Fund	Total Non-Major Governmental Funds
\$	\$	\$
295,069	1,061	259,568
5,107		505,466
		10,559
		642
<u>300,176</u>	<u>1,061</u>	<u>776,235</u>
		42,980
292,495	1,871	526,525
		2,412
		169,475
		7,165
<u>23,191</u>	<u>112</u>	<u>87,158</u>
<u>315,686</u>	<u>1,983</u>	<u>835,715</u>
<u>(15,510)</u>	<u>(922)</u>	<u>(59,480)</u>
5,000		6,100
<u>(5,000)</u>		<u>(5,000)</u>
		1,100
(15,510)	(922)	(58,380)
<u>20,203</u>	<u>2,722</u>	<u>101,487</u>
<u>\$ 4,693</u>	<u>\$ 1,800</u>	<u>\$ 43,107</u>

The accompanying notes are an integral part of the financial statements.

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**ROCKCASTLE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
COMPONENT UNIT OF ROCKCASTLE COUNTY
BALANCE SHEET – GOVERNMENTAL FUND- MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2011

ROCKCASTLE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
COMPONENT UNIT OF ROCKCASTLE COUNTY
BALANCE SHEET – COMPONENT UNIT- MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

Rockcastle County
Industrial Development
Authority

ASSETS

Cash and Cash Equivalents	\$ 419,609
Total Assets	<u>\$ 419,609</u>

FUND BALANCE

Unreserved	\$ 419,609
Total Fund Balance	<u>\$ 419,609</u>

Reconciliation to Statement of Net Assets:

Total Fund Balance	\$ 419,609
Amounts Reported In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	6,233,661
Accumulated Depreciation	(234,643)
Long-term Debt is Not Due And Payable in the Current Period And,	
Therefore, Is Not Reported in the Funds.	
Due Within One Year - Note Payments	(192,857)
Due in More Than One Year - Note Payments	<u>(1,993,953)</u>
Net Assets	<u>\$ 4,231,817</u>

The accompanying notes are an integral part of the financial statements.

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**ROCKCASTLE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
Other Supplementary Information**

For The Year Ended June 30, 2011

ROCKCASTLE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

Rockcastle County Industrial Development Authority	
<u>Authority</u>	
REVENUES	
Intergovernmental Revenue	\$ 1,609,388
Lease Revenue	330,146
Miscellaneous	36,386
Interest	4,341
Total Revenues	<u>1,980,261</u>
EXPENDITURES	
Personnel	57,028
Operations	22,358
Capital Projects	304,507
Debt service	434,394
Administration	1,021,398
Total Expenditures	<u>1,839,685</u>
Deficiency of Revenues Over Expenditures Before Other Financing Sources	<u>140,576</u>
Net Change in Fund Balances	140,576
Fund Balances - Beginning	<u>279,033</u>
Fund Balances - Ending	<u>\$ 419,609</u>
Reconciliation to the Statement of Activities:	
Net Change in Fund Balances - Rockcastle County Industrial Development Authority	\$ 140,576
Governmental Fund report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	339,656
Depreciation Expense	(183,123)
Bad debt expenses are reported in the statement of activities but do not require the use of current financial resources and are not reported in governmental funds.	
	(78,278)
Debt principal payments are expensed in the Governmental Funds as a use of current financial resources.	
	<u>301,366</u>
Change in Net Assets of Rockcastle County Industrial Development Authority	<u>\$ 520,197</u>

The accompanying notes are an integral part of the financial statements.

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ROCKCASTLE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2011

ROCKCASTLE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2011

Federal Grantor Program Title Grant Name	Pass-Through Grantor's Number	Federal CFDA #	Expenditures
U.S. Department of Homeland Security			
<i>Passed through KY Office of Homeland Security and KY Department of Military Affairs</i>			
* Chemical Stockpile Emergency Preparedness Program	M-05374698	97.040	\$ 315,686
* Disaster Grants Public Assistance	1818-DR-KY	97.036	545,518
Emergency Management Performance Grant	M-05029993	97.042	<u>8,405</u>
Total U.S. Department of Homeland Security			<u>869,609</u>
U.S. Department of Commerce			
<i>Passed through Eastern KY Pride</i>			
Congressionally Identified Awards and Projects	N/A	11.469	89,461
<i>Direct Award</i>			
Economic Adjustment Assistance	N/A	11.307	<u>7,506</u>
Total U.S. Department of Commerce			<u>96,967</u>
U.S. Department of Housing and Urban Development			
<i>Direct Award</i>			
Community Development Block Grant - Renfro Valley Project	N/A	14.228	<u>40,294</u>
Total U.S. Department of Housing and Urban Development			<u>40,294</u>
U.S. Department of Justice			
<i>Passed through State Justice Cabinet</i>			
U.S. Office of National Drug Control Policy - High Intensity Drug Trafficking Area	N/A	16.N/A	<u>62,255</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,069,125</u></u>

*Denotes Major Program tested.

ROCKCASTLE COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2011

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Rockcastle County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable George “Buzz” Carloftis, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Rockcastle County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County’s basic financial statements and have issued our report thereon dated January 17, 2012. Rockcastle County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Rockcastle County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rockcastle County Fiscal Court’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rockcastle County Fiscal Court’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rockcastle County Fiscal Court’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2011-04 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2011-01, 2011-02, and 2011-03, to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Rockcastle County Fiscal Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are included in the accompanying schedule of findings and questioned costs as items 2011-05, 2011-06, and 2011-07.

The Rockcastle County Judge/Executive's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC
January 17, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable George “Buzz” Carloftis, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

Report on Compliance With Requirements
That Could Have a Direct and Material Effect on Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Independent Auditor’s Report

Compliance

We have audited Rockcastle County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Rockcastle County’s major federal programs for the year ended June 30, 2011. Rockcastle County Fiscal Court’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Rockcastle County's management. Our responsibility is to express an opinion on Rockcastle County’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rockcastle County Fiscal Court’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Rockcastle County’s compliance with those requirements.

In our opinion, Rockcastle County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Rockcastle County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Rockcastle County’s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rockcastle County’s internal control over compliance.

Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance
With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-08.

Rockcastle County Fiscal Court's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Rockcastle County Fiscal Court's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC

January 17, 2012

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2011

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2011

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses unqualified opinions on the governmental activities, business-type activities, aggregate discretely presented component unit, each major fund, and aggregate remaining fund information of Rockcastle County Fiscal Court.
2. Three significant deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards. One material weakness is reported.
3. Three instances of noncompliance material to the financial statements of Rockcastle County Fiscal Court were disclosed during the audit.
4. One significant deficiency in internal control over major federal programs disclosed during the audit is reported in the Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB A-133.
5. The auditors' report on compliance for the major federal awards programs for the Rockcastle County Fiscal Court expresses an unqualified opinion on all major federal programs.
6. There was one audit finding relative to the major federal award programs for the Rockcastle County Fiscal Court.
7. The programs tested as major programs were Chemical Stockpile Emergency Preparedness Program CFDA # 97.040 and Disaster Grants Public Assistance CFDA # 97.036.
8. The threshold for distinguishing Type A and B Programs was \$300,000.
9. The Rockcastle County Fiscal Court did not qualify to be a low-risk auditee.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES

2011-01 The Payroll Revolving Account Should Be Reviewed To Identify All Activity Passing Through The Account

Condition: The Payroll Revolving Account is not being reconciled sufficiently to prevent bank overdraft charges.

Criteria: Internal controls should be in place to provide for the accurate reconciliation of this account.

Cause: There are no procedures in place to require that this account be reconciled to zero.

Effect: The Payroll Revolving Account is periodically overdrawn and generating insufficient funds charges.

Recommendation: Procedures should be implemented to identify all transactions that pass through this account to allow for adequate deposits to prevent bank overdrafts.

Judge/Executive's Response: The Fiscal Court agrees with this finding and will review this account and take measure to resolve the matter.

2011-02 The Jail Inmate Account Should Be Reconciled Monthly To Ensure The Detailed Records Agree With The Bank Transactions

Condition: The Jail Commissary Inmate Account detailed records did not agree with the bank statement activity for the Jail Inmate Account and the Jail Commissary operating cash account did not agree to the Jail's annual report.

Criteria: Internal controls should be in place that require monthly reconciliations to the bank statement and an annual reconciliation of the detailed records to the bank statements for both the Jail Commissary Inmate Account and the Jail Commissary Operating Cash Account.

Cause: Procedures have not been established to require that these activities take place.

Effect: The Jail cash accounts could be misstated and the annual report could be reported incorrectly.

Recommendation: To ensure that the Jail Commissary Inmate Account is appropriately accounting for financial activity, we recommend that bank reconciliations are performed timely and accurately and that a software system be implemented to assist with these activities.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (Continued)

2011-02 The Jail Inmate Account Should Be Reconciled Monthly To Ensure The Detailed Records Agree With The Bank Transactions (Continued)

Jailer's Response: In realizing that all monies were accounted for, the jailer will review procedures to ensure they follow the techniques suggested by the auditors and will convert to a computerized system to account for financial transactions.

2011-03 The Jailer's Annual Report Should Be Presented In A Manner That Presents Total Receipts And Disbursements And Reconciles Cash

Condition: The Jail Commissary's annual report was submitted in a check register format.

Criteria: The Jail Commissary should have established procedures that allow for the correction presentation of their annual report.

Cause: The method of presentation of this report has not been established with those responsible for its presentation.

Effect: The report is not summarized to allow for a sufficient review of the Jail Commissary activities.

Recommendation: We highly suggest the Jail Commissary implement a software system to account for their revenues and expenses in a format that will allow for preparation of an annual report that can be effectively reviewed by the Fiscal Court.

Jailer's Response: By converting to a computerized system, we will be able to produce a report in the format required.

INTERNAL CONTROL - MATERIAL WEAKNESS

2011-04 Debt Activity Should Be Reconciled Quarterly

Condition: The debt activity is not being monitored and reconciled on a regular basis.

Criteria: Internal controls should be in place to ensure that all debt activity is being monitored and reported accurately.

Cause: A portion of the debt is maintained independently of the Fiscal Court's accounting system and is not being addressed in the normal internal control processes.

Effect: Errors in debt accounts could occur and not be addressed in a timely manner.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL – MATERIAL WEAKNESS (Continued)

2011-04 Debt Activity Should Be Reconciled Quarterly (Continued)

Recommendation: We recommend that all debt activity of the Fiscal Court be reviewed and reconciled at least quarterly.

Judge/Executive's Response: The Fiscal court agrees with this finding and will take measures to monitor this account going forward.

STATE LAW AND REGULATIONS

2011-05 All Invoices Should Be Paid Within 30 Days As Required By KRS 65.140

Condition: Invoices are not being paid in the time frame established by KRS.

Criteria: Internal control procedures should be in place to ensure invoices are paid timely.

Cause: Circumstances may arise where costs are questioned or invoices are not received in a timely fashion.

Effect: The Fiscal Court could potentially incur late charges and penalties for not paying timely.

Recommendation: While we understand the challenges associated with vendors remitting timely invoices, we encourage the Fiscal Court to pay all invoices within the 30 day timeline.

Judge/Executive's Response: The Fiscal Court agrees with this finding and will continue to work on paying all invoices within thirty working days.

2011-06 The Debt Service Fund Should Be Budgeted And Included In The 4th Quarter Treasurer's Report As Required By KRS 68.360

Condition: The Debt Service Fund is not being budgeted and included with the Fiscal Court's quarterly reports.

Criteria: All funds of the Fiscal Court are required to be budgeted and included in the quarterly reports.

Cause: Internal controls have not been implemented to ensure this process is taking place.

Effect: The Debt Service funds are not being compiled in a format to allow for accurate financial reporting.

Recommendation: We suggest the Fiscal Court establish processes to ensure that all funds are included in the 4th Quarter Treasurer's Report to comply with Kentucky Revised Statutes.

Judge/Executive's Response: The Fiscal Court agrees with this finding and will do a budget amendment to include this activity for fiscal year 2012.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

STATE LAW AND REGULATIONS (Continued)

2011-07 The Fiscal Court Should Place One-Half Of The Forestry Funds To The Credit Of The Public Roads And The Other Half Shall Be Distributed To Each School District As Required By KRS 149.130(3)

Condition: The Forestry Funds were not distributed to the school district

Criteria: KRS statute requires that these funds be distributed 50% to public roads and 50% to the school district.

Cause: The Fiscal Court elected to not follow this policy.

Effect: The Fiscal Court is not in compliance with KRS.

Recommendation: We recommend that the Fiscal Court inquire when there are suspected changes in statutes to ensure that the distribution of revenues are in compliance.

Judge/Executive's Response: The Fiscal Court does not agree with this finding. They did not believe they were under an obligation to disburse the funds as indicated by the Statute due to a change in the State funding formula.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2011-08 The Fiscal Court Should Maintain Grant Files In A Manner That Allows For A Complete And Accurate Accounting Of All Expenditures And Revenues Received

Condition: A Summarized Accounting for the Federal Emergency Management Agency Grant activity was not readily available.

Criteria: Procedures and appropriate oversight should be established for the administration of all grant activities.

Cause: The Grant was for emergency activities and was not established in the normal process for grant administration.

Effect: There was difficulty in determining the total expenses associated with the event that could result in a potential misstatement of federal funds expended.

Recommendation: Due to the compliance requirements associated with the expenditure of federal funds, we encourage the Fiscal Court to continue to strengthen these processes.

Judge/Executive's Response: The Fiscal Court did establish procedures to record these funds, however, inadvertently some items were not recorded as intended. The Fiscal Court makes all attempts to record grant funds correctly and completely.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

ROCKCASTLE COUNTY FISCAL COURT

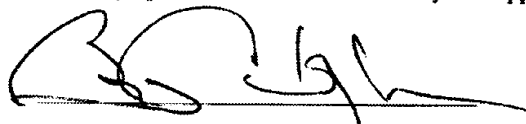
**For The Fiscal Year Ended
June 30, 2011**

Appendix A

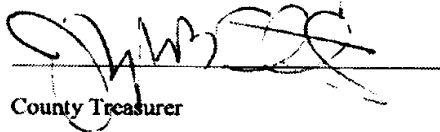
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ROCKCASTLE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

The Rockcastle County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

